

Form C

DISASTER INDEMNITY PROGRAM NAMED CAUSES OF LOSS INDEMNITY CONTRACT CONDOMINIUM DWELLING FORM

California Department of Veterans Affairs

TO REPORT A LOSS: CALL GAB 1-800-626-1613
(WITHIN CALIFORNIA)

OR 1-916-853-8300

8:00 A.M. - 5:00 P.M. MONDAY THROUGH FRIDAY

FOR EMERGENCY OUTSIDE OF HOURS LISTED ABOVE CALL
1-888-858-7243, PIN 130545

FOR GENERAL INFORMATION CALL CALIFORNIA DEPARTMENT
OF VETERANS AFFAIRS - TOLL FREE 1-800-952-LOAN (5626)

ISSUED BY THE CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (hereinafter
called Cal-Vet).

This Form C is issued to the Certificate Holder. It is issued subject to the deductible(s), terms, conditions and provisions of the Military and Veterans Code and California Code of Regulations Title 12. Unless otherwise provided, all conditions of this Form C shall apply separately to each item covered.

Loss, if any, is to be adjusted with and shall be payable to the California Department of Veterans Affairs, and the Certificate Holder, as their interests may appear under the terms and conditions as may be specified by the California Department of Veterans Affairs. Any loss hereunder shall not reduce the amount of indemnity available for subsequent losses under this Form C.

READ THE CONTRACT CAREFULLY. THE INDEMNIFICATION HEREIN IS LARGELY DEFINITION BASED. DEFINED WORDS ARE IN "BOLD TYPE." PLEASE REVIEW THE DEFINITIONS FOUND AT PAGES 22-24 BEFORE READING THE CONTRACT.

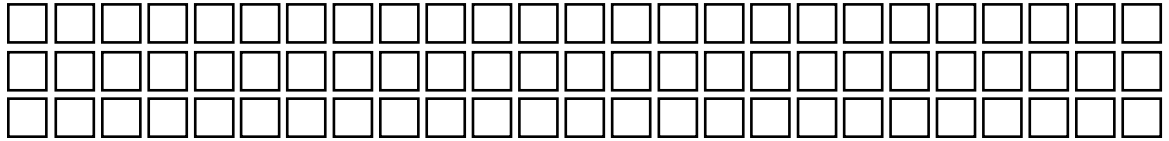
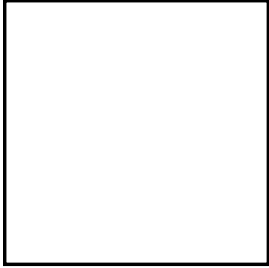


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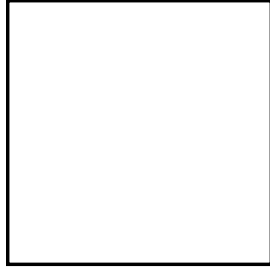


The Indemnity Coverage

1. IS REQUIRED IN ORDER TO PARTICIPATE IN THE CAL-VET LOAN PROGRAM.
2. PROVIDES NO INDEMNITY COVERAGE FOR LOSS TO PERSONAL PROPERTY.
3. IS NOT AN INSURANCE POLICY.
4. PROVIDES NO LIABILITY COVERAGE.
5. IS LIMITED TO **SPECIFIED** TYPES OF DAMAGE RESULTING FROM A **NAMED CAUSE OF LOSS**.
6. IS SUBJECT TO LIMITATIONS, RESTRICTIONS AND EXCLUSIONS.

YOU MAY WISH TO CONSIDER WHETHER **YOU** WILL REQUIRE SUPPLEMENTAL COVERAGE FROM AN INSURANCE POLICY AS WELL AS THE INDEMNITY COVERAGE PROVIDED BY THIS CONTRACT.

THIS **CONTRACT** COVERS ONLY A CONDOMINIUM RESIDENTIAL **DWELLING** WHERE INDEMNIFICATION COVERAGE FOR THE **DWELLING** IS NOT AVAILABLE UNDER THE CAL-VET FORM A, DESIGNED FOR PRINCIPAL USE AS A **DWELLING** PLACE, FOR NO MORE THAN ONE FAMILY.



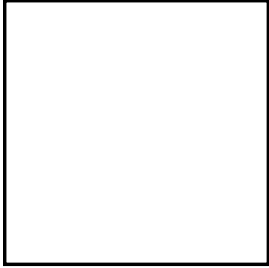
Indemnity Contract Agreement

THIS IS AN AGREEMENT OF **CONTRACT** between CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS (as "Cal-Vet"), custodian of the statutory disaster indemnity program and the program pool fund, (DISASTER INDEMNITY PROGRAM), (hereinafter known as "**we**," "**our**," and "**us**,") and the "INDEMNITEE" (hereinafter known as "**you**" and "**your**").

- A. DWELLING. **We** agree to indemnify **you** against **specified direct physical loss** caused by or resulting from a **named cause of loss** to the **designated dwelling**, based upon:
1. Having paid the correct amount of assessment; and
 2. Having maintained **your** residence in the **dwelling** as required by the program; and
 3. **Our** reliance on the accuracy of the information and statements **you** have furnished; and
 4. All the terms of this contract, the Military and Veterans Code and the Regulations written to support the Code.

On this basis, **you** will be indemnified for **each loss** causing **specified** damage to **designated dwelling** at replacement cost without deduction for **depreciation**, subject to the following options up to the lesser of:

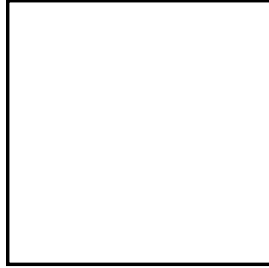
1. The amount actually and necessarily expended to repair or rebuild the **improvements** to the **dwelling** using equivalent construction and use on the same site; or
2. For no greater cost than option 1, **you** elect to purchase a similarly improved dwelling at another location; or
3. If **you** do not elect either option 1 or 2 and elect a cash settlement, **we** will pay the loss in the **fair market value** of the damaged and/or destroyed **dwelling** based upon the difference in the measure of its **fair market value** immediately prior to the loss, and that subsequent to the loss, but in no case more than the amount required to repair or restore the damaged property.



Section 1. Persons Indemnified

We agree to indemnify only:

- A. The party named in this **contract** and in the event of their death while this contract is in force, legal representatives;
- B. Any mortgagee and loss payee named in the application, as well as any other mortgagee or loss payee determined to 1) HAVE BEEN APPROVED BY THE DEPARTMENT and that 2) exists at the time of a loss, in the order of precedence and to the extent of their interest but for no more, in the aggregate, than the interest of the program participant named in the Cal-Vet loan.



Section 2. Property Indemnified

The property for which this **contract** provides indemnity is subject to any limiting language in this Indemnity Contract, the Military and Veterans Code and the California Code of Regulations Title 12.

COVERAGE: DWELLING

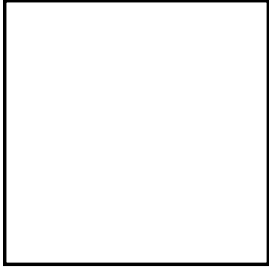
Subject to Section 3 - Property Not Indemnified, below, we cover your improvements in your dwelling that may include:

A. The following property:

1. Built-in appliances, fixtures, and alterations that are part of the structure in which the **dwelling** is located and are contained within the **dwelling**;
2. Wall-to-wall interior carpeting attached to the **dwelling**;
3. Items of real property, other than chimneys, which are not covered by an insurance policy and pertain exclusively to the **dwelling**;
4. Chimneys that are attached to or part of the **dwelling**, and pertain exclusively to the dwelling, which are not covered by an insurance policy.

B. The following property, but only to the extent that a) these are not covered by an insurance policy and b) **you** are obligated to repair or maintain the property under the terms of the **Association** governing documents:

1. Plumbing pipes and utility service structures and equipment that are enclosed within the walls, ceiling, or floor of the **dwelling**, extending to the exterior surface of the perimeter walls of the **dwelling**;
2. Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are located outside of the perimeter walls of the **dwelling** but within the **common interest development** and (2) directly affect the habitability of the **dwelling**.



Section 3. Property Not Indemnified

We do not indemnify any of the following:

A. Land

1. Land, including land underlying the **dwelling**.
2. The cost of land stabilization, structures, apparatuses, or devices to stabilize the land, and engineering associated with land stabilization, except as provided under Section "5. Additional Indemnification: Loss Assessment General."

B. Personal Property of any description including, but not limited to:

1. Valuables and commercial property, meaning accounts, bills, currency, deeds, evidences of debt, money, coins, medals, postage stamps, securities, bullion, manuscripts, other valuable papers or records, and personal property used in a business.
2. ALL personal property including that used in connection with any incidental commercial occupancy or use of the **building** including, but not limited to:
 - a. Animals, livestock, birds, and fish.
 - b. Aircraft.
 - c. Automobiles, motor trucks, travel trailers, semi-trailers, motorcycles, motor scooters, and recreational vehicles of any type.
 - d. Watercraft including their furnishings and equipment.

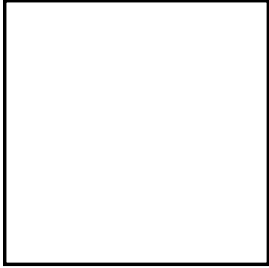
C. The **building**, other structures or parts of structures other than the **dwelling** defined above. The excluded **building**, other structures, or parts of structures include:

1. Exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems and water reclamation systems.
2. Underground structures including, but not limited to, underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems.
3. Walkways, driveways, docks, and bridges except as provided under Additional Indemnification: Loss Assessment (B)⁽¹⁾.

4. Fences, Seawalls, bulkheads, piers, and outside walls, and retaining walls, except as provided under Additional Indemnification: Loss Assessment (B)⁽²⁾.
5. Landscaping, trees, shrubs, lawns, plants, or growing crops, even if damaged by necessary repairs to covered property.
6. Above ground swimming pools, spas and hot tubs including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to the dwelling.
7. Awnings and patio coverings, and their support structures.
8. Antennas and satellite dishes and any towers, brackets or attachments that support or secure them unless permanently attached to the dwelling.
9. Any **cosmetic**, decorative, or artistic features of the property including, but not limited to, works of art; items such as murals; chandeliers; mosaics; statuary or sculpture; carvings, inlays, and reliefs or bas reliefs; and fountains, aquariums, and their systems. If at the time of loss a decorative or artistic feature is serving a utilitarian purpose, the cost to repair or replace the decorative or artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.
10. Exterior masonry veneer. For purposes of this exclusion, stucco and exterior chimney facings are not exterior masonry veneers.
11. Plaster, to the extent the cost to repair or replace exceeds the value of its replacement with sheetrock or drywall.

1. Including but not limited to losses specified in "SECTION 5-LOSSES NOT INDEMNIFIED."

2. Specified in "SECTION 3-PROPERTY NOT INDEMNIFIED"



Section 4. Losses Indemnified

A. We provide indemnity for **each loss** to the **dwelling** caused by or resulting from a **named cause of loss**.

B. ADDITIONAL INDEMNIFICATION

The provisions of the following additional indemnification clauses are subject to all of the terms and conditions of this **contract** and are included within the limits of the **contract** and do not increase the certificate limits of liability but may increase the **guaranteed replacement** cost coverage limit as specified or provided for elsewhere in this **contract**. The total of the loss paid under these additional areas of indemnification is limited by the "Additional Indemnification" sub-limits as well. While **we** provide the following additional forms of indemnity, it is only to the extent that the loss or expense is not covered under an **Association** master policy or where the deductible of that **Association** master policy has not been exceeded. These additional areas of coverage include a) debris removal, b) limited **building** code upgrade, and c) loss mitigation, and d) the several forms of loss assessment coverage as described below.

1. ADDITIONAL INDEMNIFICATION: DEBRIS REMOVAL

In the event of **direct physical loss** to the **designated dwelling** caused by a **named cause of loss** covered by this Form C, **you** may apply up to 5% (five percent) of the amount of the annual report of the certificate limit as an additional amount of indemnification at the time of loss to remove debris. Within the several limits of **your** coverage, **we** cover any expense **you** incur, as a result of removing debris of, on or from the **designated** property so long as the debris problem was directly caused by **direct physical loss** caused by or resulting from a **named cause of loss** to the **designated dwelling**. Under these provisions indemnification extends to:

- a. Non-owned debris from beyond the boundaries of the described premises that was physically placed on the **designated** property by the **named cause of loss**;
- b. Parts of the **designated** property that is anywhere on the described premises; and
- c. On property beyond the boundaries of the described premises as a direct result of the **named cause of loss**.

This additional indemnification does not apply to pollutants and contaminants, or their clean up and removal costs.

2. ADDITIONAL INDEMNIFICATION: LIMITED BUILDING CODE UPGRADE

In the event of **direct physical loss** to the **designated dwelling** caused by a **named cause of loss** covered by this Form C, **you** may apply up to 5% (five percent) of the amount of the annual report of the certificate limit to complete necessary upgrades to the **dwelling** to meet the current codes, ordinances or laws in force at the time of loss. This amount of indemnity may be used to cover an increased cost of construction due to the enforcement of any ordinance or law regulating the construction, repair, or demolition to such **dwelling**. This is further limited to costs expended as a result of the enforcement of any ordinance or law promulgated subsequent to the original construction regulating the new construction, repair, or demolition to such **dwelling**. This coverage is in addition to the limit available for the **dwelling** and will apply to repairs to the **dwelling** only.

3. ADDITIONAL INDEMNIFICATION: LOSS MITIGATION

In the event **direct physical loss** to the **designated dwelling** is caused by a **named cause of loss** covered by this Form C, reasonable expenses incurred by **you** to prevent covered damage are also covered, in an aggregate amount not to exceed \$2,000.00.

For reimbursement under this ADDITIONAL INDEMNIFICATION to apply, the **designated** property must be in imminent danger of covered loss and the threat of covered damage must be of such imminence as to lead a person of common prudence to apprehend covered damage. The provisions of the ADDITIONAL INDEMNIFICATION clauses are subject otherwise to all of the terms and conditions of this contract. They do not increase the certification limits of liability.

4. ADDITIONAL INDEMNIFICATION: SPECIAL CATASTROPHE COVERAGE

This **contract** is extended to cover the indemnitee's mortgage payment (principal, interest, insurance and taxes) when the **improvements** to the principal **dwelling** structure have suffered physical damage of the type indemnified against by this **contract** such that the principal **dwelling** structure has been rendered untenable. The period of restoration shall be from the time physical damage renders the **building** untenable to the time when with due diligence and dispatch the damaged **building** could be repaired or replaced. This period does not include any additional time required for making changes to the **building** with the exception of covered code upgrades.

5. ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT GENERAL

- A. We provide the following indemnity, subject to all of the terms and conditions of this **contract**, and subject to the **application** of the deductible for "ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT". The sub-limit of coverage shown below for "ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT" is the most **we** will pay under this coverage for all claims arising out of any one covered event, regardless of the number of assessments that are assessed against **you** or the number or amount of claims **you** make under this coverage.

Assessment By **Association** of Owners: **We** will indemnify **your** share of any assessment charged by the **Association** of owners against all property owners in the common interest development, if all of the following three requirements are satisfied:

1. Requirement One: **You** have a legal obligation to pay the amounts assessed against **you** by the **Association** of owners, and the assessment is properly and legally made as a result of a loss that is directly caused by a **named cause of loss**;
 2. Requirement Two: The assessment is not made as a result of a loss specified in "SECTION 5 - LOSSES NOT INDEMNIFIED," or loss to property not covered as specified in "SECTION 3 - PROPERTY NOT INDEMNIFIED;" and
 3. Requirement Three: The assessment is made as a result of a loss that is to property owned by one or any combination of the following three categories: (i) all members of the **Association** of owners collectively, (ii) the **Association** of owners, or (iii) **you**.
- B. If an assessment is made as a result of a combination of (a) losses that are not indemnified, and (b) damage to property not indemnified and (c) loss to property that is covered, then under this additional coverage, **we** will pay only that pro rata portion of **your** share of the assessment equal to that percentage of the entire assessment that is based on covered loss that is not excluded by the **contract**. However, with respect to common area property, within the valuation limitations of and as an extension of coverage to **Coverage: Dwelling**, **we** will indemnify for an **Association** assessment for loss not covered by any policy of insurance (or within the deductible provisions of the applicable policies of insurance) for repair of:
1. That portion of any bridge that is necessary for the safe and regular ingress to or egress from the **dwelling**. This **contract** will only apply when covered damage has caused an unsafe or hazardous condition, then only for the cost to remedy the unsafe or hazardous condition.
 2. Piers, building foundations and retaining walls, on the residence premises that are integral to the stability of the building that houses the **dwelling**. The cost of repairing, replacing or stabilizing the land under or around these devices necessary to repair damage due to a **named cause of loss** is subject to a \$50,000 sub limit.

This **contract** will pay up to the certificate limit or a total of \$50,000, whichever is less in any one occurrence for Condominium Unit Owner's Loss Assessment sustained by a **contract** holder and charged by a condominium **Association** arising out of the ownership of a condominium unit. This limit includes payment for any loss assessment sustained by a **contract** Holder for his proportionate share due to emergency repairs, code upgrades to the common areas of the property and the **application** of the deductible in any insurance policy issued in the name of the condominium **Association** and insuring a loss additionally covered by this **contract**.

6. SPECIFIC LOSS ASSESSMENT INDEMNIFICATION

Additional descriptions of the sub-limits for LOSS ASSESSMENT: EMERGENCY REPAIRS, LOSS ASSESSMENT: CODE UPGRADES, and LOSS ASSESSMENT: DEBRIS REMOVAL follow.

A. LOSS ASSESSMENT: EMERGENCY REPAIRS.

If covered damage occurs to property covered under "**COVERAGE: DWELLING**," **we** will pay the cost **you** incur for reasonable and necessary emergency measures you take to protect against further damage to that property and therefore reduce loss that otherwise would necessarily be indemnified by this contract.

1. This emergency repairs indemnification provides coverage up to a sub-limit of 5% of the certificate limit of indemnification for an **Association** loss assessment for emergency repairs for "**COVERAGE: DWELLING**." The applicable total limit of available coverage for the "**COVERAGE: DWELLING**" will be reduced by any amount **we** pay for this coverage.
2. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage doesn't relieve **you** of **your** responsibilities outlined in "**Your Duties After a Loss**" (CONDITIONS item no. 3).

Any amount **we** pay for losses that are subject to this sub-limit will also reduce the applicable total available limit of available coverage for "**ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT**."

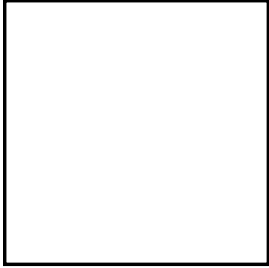
B. LOSS ASSESSMENT: BUILDING CODE UPGRADES

To the extent that limits remain available for **building** code upgrades under "**ADDITIONAL INDEMNIFICATION: LIMITED BUILDING CODE UPGRADE**," **you** may apply the remaining amounts (up to 5% (five percent) of the certificate limit) under this indemnification for **your** share of any portion of an assessment resulting from the cost of reconstruction to bring the property up to local residential **building** code standards in effect on the date of the **named cause of loss** that caused the damage, as required as part of the approval of the reconstruction permit process for repair of the covered property. Any amount **we** pay for losses that are subject to this sub-limit will reduce the applicable total remaining limit of indemnity for "**ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT**" as well as the overall limit with respect to the "Additional Coverage: Limited Building Code Upgrade Coverage."

C. LOSS ASSESSMENT: DEBRIS REMOVAL

To the extent that limits remain available for debris removal under "**ADDITIONAL INDEMNIFICATION: DEBRIS REMOVAL**," **you** may apply the remaining amounts (up to 5% (five percent) of the certificate limit) under this coverage for **your** share of any portion of an assessment resulting from the cost of debris removal as described above. Any amount **we** pay for losses that are subject to this sub-limit will reduce the applicable remaining total limit of indemnity for "**ADDITIONAL INDEMNIFICATION: LOSS ASSESSMENT**" as well as the overall limit with respect to the "Additional Indemnification: DEBRIS REMOVAL."

The provisions of the **ADDITIONAL INDEMNIFICATION** clauses above may increase the **guaranteed replacement cost** coverage limits. The provisions of the **ADDITIONAL INDEMNIFICATION** clauses above are otherwise subject to all of the terms and conditions of this policy. They do not increase the certificate limits of liability, or amounts recoverable as specified or provided for elsewhere in this **contract**.



Section 5. Losses Not Indemnified

We only indemnify for **specified direct physical loss** caused by or resulting from loss due to a **named cause of loss** to the indemnified property. This means **we** do not cover:

A. Compensation, reimbursement, or allowance for:

1. Loss of use of the **designated dwelling** or premises.
2. Loss of access to the **designated dwelling** or premises.
3. Loss of profits derived from the **designated dwelling** or premises.
4. Loss resulting from interruption of business, profession, or manufacture derived from the **designated dwelling** or premises.
5. Your additional living expenses incurred while the **designated dwelling** is being repaired or is uninhabitable for any reason.
6. Any loss or damage to any personal property.
7. Any economic loss.
8. Cost of defense or indemnity for any liability actions.

B. Loss caused by, resulting from, contributed to or aggravated by any of the following:

Fire or lightning, windstorm or hail, smoke, explosion, riot, riot attending a strike or civil commotion, aircraft, vehicles, vandalism and malicious mischief and all other causes of loss that would be indemnified under another policy.

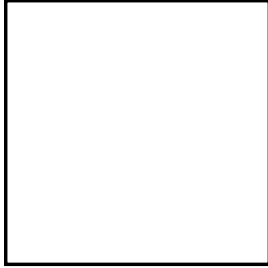
C. Losses of the following nature:

1. A loss which is already in progress as of 12:01 A.M. of the first day of the **contract** term, or, as to any increase in the limits of coverage which is requested by **you**, a loss which is already in progress as of 12:01 A.M. on the date when the additional coverage becomes effective.
2. A loss caused by **your** modification or modification at **your** direction to the property or **dwelling** which materially increases the risk of a cause of loss.
3. A loss caused intentionally by **you** or any member of **your** household.

4. A loss caused by or resulting from power, heating or cooling failure, unless such failure results from physical damage to power, heating or cooling equipment situated in the dwelling, caused by a **named cause of loss**.
- D. This Form C contract will not indemnify against loss caused directly or indirectly by any of the following:
1. Hostile or warlike action in time of peace or war, including action in hindering, combating or defending against an actual, impending or expected attack: a) by any government or sovereign power (de jure or de facto), or by any authority maintaining or using military, naval or air forces, or b) by military, naval or air forces, any weapon of war employing atomic fission or radioactive force, whether in time of peace or war, insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating or defending against such an occurrence, seizure or destruction under quarantine or Custom's regulations, confiscation by order of any government or public authority, or risks of contraband or illegal transportation or trade.
 2. Nuclear reaction or nuclear radiation or radioactive contamination, all whether controlled or uncontrolled, and whether such loss be direct or indirect, proximate or remote, or be in whole or in part cause by, contributed to, or aggravated by a **named cause of loss** indemnified against by this **contract**.
 3. Acts or decisions, including the failure to **act** or decide, of any person, organization or governmental body.
 4. Faulty, inadequate or defective, planning, zoning, development, surveying, siting, design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction; materials used in repair, construction, renovation or remodeling, maintenance of part or all of any property on or off the described premises.
 5. Water below the surface of the ground, including that which exerts pressure on or flows, seeps or leaks through sidewalks, driveways, foundations, walls, basement or other floors or through windows, or other openings in such sidewalks, driveways, foundations, walls or floors.
- E. This **contract** will not indemnify against loss caused by, resulting from, contributed to or aggravated by any of the following.
1. Any electrical injury or disturbance to electrical appliances, devices, fixtures or wiring caused by electrical currents artificially generated.
 2. Mechanical breakdown, including rupture or bursting of rotating parts or machinery caused by centrifugal force.
 3. Wear and tear, mold, gradual deterioration, inherent vice, latent defect, moths, vermin or insects.
 4. Settling, cracking, shrinking or expansion of foundations, walls, floors, ceilings or roofs unless caused by a loss due to a **named cause of loss** for which indemnification is available hereunder.
 5. Extremes or change in temperature, change in humidity, dampness of atmosphere or

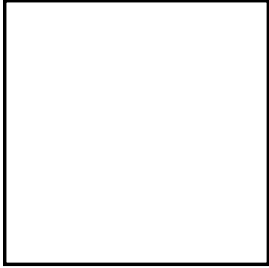
dryness of atmosphere, rust or corrosion, change in color, texture, finish or flavor, settling, cracking, shrinking or expansion, evaporation, loss of weight or leakage of contents.

6. Infidelity or any dishonest act committed, alone or in collusion with others, by any person that may be indemnified by the contract, or by a person or persons to whom the property may be entrusted.
 7. Any unexplained loss, mysterious disappearance of property, or shortage of property disclosed in taking inventory.
 8. As respects improvements or structures in the course of repair or construction, this **contract** does not cover:
 - (a) Penalties for non-completion of or delay in completion of **contract** or non-compliance with **contract** conditions.
 - (b) Cost of making good faulty or defective workmanship, material, construction or design, but this exclusion shall not apply to damage resulting from such faulty or defective workmanship, material, construction or design provided such resulting loss is proximately caused by a named cause of loss.
 - (c) Testing except for mechanical, aerostatic, hydrostatic and pneumatic testing.
- F. In the absence, **cancellation** or expiration of the Cal-Vet Form A, this **contract** will continue to exclude all causes of loss that would have been indemnified under the Form A.



Section 6. Deductibles

- A. Each loss to **your designated dwelling** or premises is subject to a deductible provision under which **you** bear a portion of the loss before payment is made under the **contract**.
- B. The loss deductible shall apply separately to **each loss** event including, within the aggregate loss, any debris removal expense.
- C. The amount of the deductible for all covered losses shall be the greater of 5 percent (of the cost of repair) or \$500 for all loss except that due to flood.
- D. The amount of the deductible for **flood** shall be \$500.00.



Section 7. General Conditions and Provisions

A. LOSS SETTLEMENT PROVISION

Indemnified property losses are settled as follows:

1. Damage to **dwelling(s)** will be indemnified at the **guaranteed replacement cost coverage** without deduction for depreciation, subject to the following options:
 - a. The amount actually and necessarily expended to repair or rebuild the **improvements** to the **dwelling** for equivalent construction and use on the same site; or
 - b. For no greater cost than option a, **you** elect to purchase a similarly improved **dwelling** at another location; or
 - c. If **you** do not elect either option a or b and elect a cash settlement, **we** will pay the loss in the **fair market value** of the damaged and/or destroyed dwelling based upon the difference in the measure of its **fair market value** immediately prior to the loss, and that subsequent to the loss, but in no case more than the amount required to repair or replace the damaged property.
 - d. **You** may elect to disregard the **guaranteed replacement cost coverage** in making claim hereunder, but such election shall not prejudice **your** right to make further claim within 180 days after loss for any additional liability brought about by these provisions.

B. ALLOCATION OF INDEMNITY FUNDS

All contracts providing indemnity for loss against property damage or other loss to the **dwelling** shall be written with any loss payable to **us** and to **you**, as **our** interest may appear, and shall be in such amount or amounts, with such companies, and under such terms and conditions as may be specified by **us**. All such policies and renewals thereof shall be reported to and deposited with **us**. In case of indemnified loss due to damage caused by a **named cause of loss**, the proceeds of any and all such policies shall be applied to the unpaid balance of the Cal-Vet loan **contract** or shall be disbursed to allow **you** to reconstruct the damaged property, all as **we** may determine.

C. CERTIFICATE LIMITS

We will require and fix an initial minimum amount of indemnity limits as necessary to maintain and protect **our** interests in the collateral and under the law requiring **guaranteed replacement cost coverage** for the **dwelling** under this **contract**.

1. **We** may modify the amount of the required indemnity at **our** own discretion. **You** shall be solely responsible for requesting in writing and maintaining such amounts of contract coverage as may be necessary to protect **your** interest (or additional interests) in the property, and shall bear the risk of any loss in excess of the amount outside the scope of the contract in force at the time of such loss.
2. Modifications of the required amount by **us** do not relieve **you** of **your** responsibility of notifying **us** of the need for additional amounts of contract coverage in excess of the amount of indemnity or outside the scope of this contract in force at the time of such loss.

D. CONCEALMENT OR FRAUD

We will not cover **your** interests under this **contract**, which, with respect to your interests, shall be void, nor can this **contract** be renewed or any new disaster indemnity coverage be issued to **you** if:

1. **You** have sworn falsely, or willfully concealed or misrepresented any material fact; or
2. **You** have done any fraudulent **act** concerning this coverage; or
3. **You** have willfully concealed or misrepresented any fact on the **application** which causes us to issue a **contract** to **you** based on a premium amount which is less than the premium amount which would have been payable by **you** were it not for the misstatement of fact.

In the event this **contract** is voided as a result of **your** act of concealment or fraud and Cal-Vet has applied the proceeds of the **contract** in payment of the Cal-Vet loan balance (under the **B. Allocation of Indemnity Funds** provision), the Department will retain their right of recovery against you for funds expended.

E. SUBROGATION

This contract shall not be invalidated should **you** waive in writing prior to a loss any or all right of recovery against any party for loss occurring to the described property. Whenever **we** make a payment for a loss under this contract, **we** are subrogated to **your** right to recover for that loss from any other person. That means that **your** right to recover for a loss that was partly or totally caused by someone else is automatically transferred to **us**, to the extent that **we** have paid **you** for the loss. **We** may require **you** to acknowledge this transfer in writing. After the loss, **you** may not give up **our** right to recover this money or do anything that would prevent **us** from recovering it. If **you** make any claim against any person who caused **your** loss and recover any money, **you** must pay us back first before **you** may keep any of the money recovered.

F. SUIT AGAINST CDVA

No suit or action on this Form C for the recovery of any claim shall be sustainable in any court of law unless **you** have fully complied with all the requirements of this Form C, all administrative procedures required by law and not unless commenced within 12 months after the date of the loss. If **you** disagree with the decision of the California Veterans Board, **you** must file a claim with the California Board of Control before filing suit against CDVA.

G. CANCELLATION

The California Department of Veterans Affairs may cancel this Form C by giving thirty (30) days prior written notice of such cancellation.

H. APPRAISAL:

If **you** and CDVA fail to agree on the amount of loss, either may demand an appraisal of the loss. In this event, each party will choose a competent appraiser within 60 days after receiving a written request from the other. The two appraisers will choose an umpire. If they cannot agree upon an umpire within 15 days, the Certificate Holder or CDVA may request that a judge of a court of record in the state where the property is located make the choice. The appraisers will separately set the amount of loss. If the appraisers submit a written report of an agreement to CDVA, the amount agreed upon will be the amount of the loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two determines the amount of loss.

Each party will:

1. Pay their appraiser;
2. Bear the other expenses of the appraisal and umpire equally; and
3. Pay its attorneys fees, if any.

I. THIRD PARTY LIABILITY OR INSURANCE COVERAGE

*This contract is an indemnity **contract** and is not insurance.* This **contract** of indemnity is intended to protect the homes financed under the Cal-Vet Farm and Home Loan Program. If a loss covered by this disaster indemnity **contract** is also covered by insurance, **we** will pay only that part of the loss that is not covered under any policies of insurance. In the event of any disputes, **we** will take an assignment of the proceeds of the insurance contract, measure and make payment under this indemnity **contract** (subject in all other ways to the terms of the contract) and proceed in the recovery in **your** name as the named insured under that other coverage or manner of recovery. The Military and Veterans Code section 987.89 details the methodology and allocation of the recoveries. Otherwise, loss covered by policies of insurance will be treated as loss that will not be indemnified under the terms of this **contract**.

If there is insurance in **your** name covering the same property as indemnified by this **contract**, the indemnity provided by this contract shall be excess over that insurance. If there is insurance in the name of the **common interest development** covering the same property covered by this **contract**, the indemnity provided by this **contract** shall be excess over that insurance as well. Where coverage exists under a National Flood Insurance Program (NFIP) policy, it will constitute insurance coverage and this **contract** will, again, only pay excess of the amount of loss paid by the NFIP policy or for loss covered by this indemnity **contract** that is excluded under the NFIP program.

J. AMENDMENTS. WAIVERS. ASSIGNMENT

This **contract** cannot be amended nor can any of its provisions be waived without the express written consent of the California Department of Veterans Affairs. No action **we** take under the terms of this **contract** can constitute a waiver of any of **our** rights. No assignment of this **contract** is allowed without written permission from the California Department of Veterans Affairs.

K. OUR OPTIONS AFTER A LOSS

California Department of Veterans Affairs may repair or replace any part of the damaged property with equivalent construction. **We** may, in **our** sole discretion, exercise other options after loss including the following:

1. Evidence of Loss: If **we** specifically request it, in writing, **you** may be required to furnish **us** with a complete inventory of the destroyed, damaged and undamaged property, including the details as to quantities, costs, actual cash values or replacement cost (whichever is appropriate), amounts of loss claimed, and any plans and/or specifications for repair of the damaged property which **you** can make reasonably available to **us**.
2. Examination under oath and access to indemnified property ownership records: **We** may require **you** to:
 - a. Show **us**, or **our** designee, the damaged property, to be examined under oath by **our** designee and to sign any transcripts of such examinations; and
 - b. At such reasonable times and places as **we** may designate, permit **us** to examine and make extracts and copies of any policies of property insurance insuring **you** against loss; and the deed establishing **your** ownership of the insured real property; and the documents including the Declarations of the Common Interest Development, its Articles of Association or Incorporation, Bylaws, rules and regulations, and other development documents if **you** are a unit owner in a Common Interest Development; and all books of accounts, bills, invoices and other vouchers, or certified copies thereof if the originals are lost, pertaining to the damaged property.

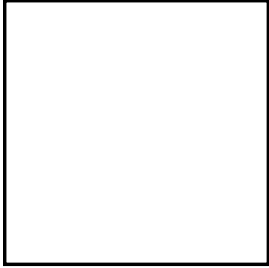
M. ABANDONMENT

You may not abandon damaged or undamaged property to **us**.

However, **we** may permit **you** to keep damaged, covered property ("salvage") after a loss and **we** will reduce the amount of the loss proceeds payable to **you** under the **contract** by the value of the salvage.

N. LOSS CLAUSE

If **we** indemnify **you** for damage to property sustained in a covered loss, **you** are still eligible, during the term of the **contract**, to collect for a subsequent loss due to a **named cause of loss**. Of course, all loss arising out of a single, continuous **flood** of long duration shall be adjusted as one **flood** loss.



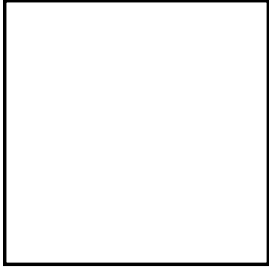
Section 8. Your Duties in the Event of a Loss

Duties after Loss:

In the event **you** determine a covered loss or damage to covered property may have occurred, **you** must do the following:

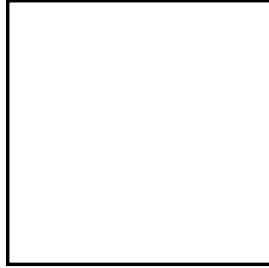
- A. Give notice to the third party administrator (currently GAB) no later than 90 days from the date of discovery of such loss or damage.
- B. Protect the property from further damage.
- C. Make reasonable and necessary repairs to protect the property.
- D. Keep an accurate record of repair expenses.
- E. As often as reasonable required:
 - 1. Exhibit to any person designated by the third party administrator (currently GAB) all that remains of any property; and
 - 2. Submit to examinations under oath and subscribe the same; and
 - 3. As often as may be reasonably required, produce for examination all books of account, bills, invoices and other vouchers, or certified copies thereof if originals be lost, at such reasonable time and place as may be **designated** by CDVA and permit extracts and copies thereof to be made.
- F. As soon as reasonably possible, separate the damaged and undamaged property, putting it in the best possible order so that **we** may examine it.
- G. File with the third party administrator (currently GAB) a detailed sworn Proof of Loss within 60 days of receipt of the Proof of Loss from the third party administrator (currently GAB) with the following information:
 - 1. The date and time of the loss;
 - 2. A brief explanation of how the loss happened;
 - 3. Your interest in the property damaged (for example, "owner") and the interest, if any, of others in the damaged property;

4. The **actual cash value** or replacement cost, whichever is appropriate, of each damaged item of covered property and the amount of damages sustained.
5. Names of mortgagees or anyone else having a lien, charge or claim against the covered property;
6. Details as to any contracts of insurance covering the property, whether valid or not;
7. Details of any changes in ownership, use, occupancy, location or possession of the covered property since the **contract** was issued;
8. Details as to who occupied any covered **building** at the time of loss and for what purpose; and the amount **you** claim is due under this **contract** to cover the loss, including statements concerning:
 - a. The limits of coverage stated in the contract; and
 - b. The cost to repair or replace the damaged property (whichever costs less).
- H. Cooperate with **us** and **our** adjuster or other representative in the investigation of the claim.
- I. Document the loss with all bills, receipts, and related documents for the amount being claimed.
- J. The third party administrator (currently GAB) may furnish **you** with a proof of loss form, and she or he may help **you** to complete it. However, this is a matter of courtesy only, and **you** must still send **us** a proof of loss within 60 days after the loss even if the adjuster does not furnish the form or help **you** complete it. In completing the proof of loss, **you** must use **your** own judgment concerning the amount of loss and the justification for that amount. The adjuster is not authorized to approve or disapprove claims or tell **you** whether **we** will approve **your** claim.
- K. Cooperate with **us** and the third party administrator (currently GAB) in the adjustment and settlement of the loss.
- L. Notice to the third party administrator (currently GAB) shall be the same as notice to CDVA. Call GAB at 1-800-626-1613 or 1-916-853-8300.
- M. **We** may, at **our** option, waive the requirement for the completion and filing of a proof of loss in certain cases, in which event **you** will be required to sign and, at **our** option, swear to an adjuster's report of the loss which includes information about **your** loss and the damages sustained, which is needed by us in order to adjust **your** claim.
- N. Any false statements made in the course of presenting a claim under this **contract** may be punishable by fine or imprisonment under the applicable state or federal laws.
- O. Conditions Suspending or Restricting Coverage: Unless otherwise provided in writing added hereto, **we** shall not be liable for loss occurring while the hazard is increased by any means within **your** control or knowledge.
- P. Alterations and Repairs: **You** may, at any time and at **your** own expense, make alterations, additions and repairs to the covered **dwelling**, and complete work in the course of construction. However, **guaranteed replacement cost coverage** shall not apply to any alterations and/or additions in excess of \$10,000 unless reported in writing to the California Department of Veterans Affairs upon completion.



Section 9. What Law Governs

The Military and Veterans Code, California Code of Regulations Title 12 and the California common law govern this contract.



Section 10. Definitions

AS USED IN THIS CONTRACT:

1. "**Act**" means the Military and Veterans Code section 989.4 establishing the Disaster Indemnity Fund, and any acts amendatory thereof.
2. "**Actual Cash Value**" means the amount of loss will be calculated based upon the cost to repair or replace that part of the structure damaged or destroyed with material of like kind and quality less allowance as **depreciation** for physical deterioration or obsolescence.
3. "**Application**" means the statements made and signed by **you** or **your** loan agent, and giving information on the basis of which **we** determine the acceptability of the loan and the risk, the **contract** to be issued and the correct premium payment. The correct premium payment must accompany the **application** for the **contract** to be issued. The **application** is a part of this named causes of loss indemnity contract.
4. "**Association**" means the group of homeowners which manages the subdivision or common interest development **building** in which **you**, as the equitable owner, maintain **your** dwelling.
5. "**Building**" means a walled and roofed structure, other than a gas or liquid storage tank, that is principally above ground and affixed to a permanent site.
6. "**Cancellation**" means that ending of the **contract** coverage provided by this **contract** prior to the expiration date.
7. "**Contract**" means the entire written **contract** between **you** and **us**; it includes this printed form, the application, any regulations in the California Code of Regulations Title 12 or Military and Veterans Code statutes which may be issued and any renewal certificates indicating that coverage has been instituted for a new contract and contract term. Only one **dwelling**, specifically described by **you** in the application, may be **designated** under this contract, unless **application** to cover more than one **dwelling** is made on a form or in a format approved for that purpose by the Cal-Vet Farm and Home Loan Program.
8. "**Common interest development**" means any of the following:
 - A condominium project, as defined in California Civil Code section 1351, subdivision (f); (including townhouse condominium projects)

- A planned development, as defined in California Civil Code section 1351, subdivision (k);
9. "**Cosmetic**" means that damage which is decorative or superficial rather than functional and implies damage that does not affect the habitability or structural integrity of the **dwelling**. It is covered only if in conjunction with **structural** repairs.
 10. "**Depreciation**" means the decrease in value of property through wear, deterioration or obsolescence.
 11. "**Designated**" means the **dwelling** located at the address as identified in the property description in the Cal-Vet loan contract.
 12. "**Direct Physical Loss**" means actual loss of or physical damage, evidenced by physical changes to the **designated** dwelling.
 13. "**Dwelling**" refers specifically to **your** individual unit in a residential structure located within the **common interest development** at the location specified in the Cal Vet loan contract.
 14. "**Each Loss**" means as a single loss, all the structural loss or damage to covered property arising at the same time (within a 72 hour period) as a proximate result of a single **named cause of loss** or all the structural damage to covered property proximately ensuing from a single **named cause of loss** (within a 72 hour period). Of course, all loss arising out of a single, continuous **flood** of long duration shall be adjusted as one **flood** loss. **We** may elect the moment at which the seventy-two hour period shall be deemed to have commenced.
 15. "**Earthquake**" means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion.
 16. "**Fair Market Value**" means what a willing buyer would pay and a willing seller would accept.
 17. "**Flood**" means a general and temporary condition of partial or complete inundation of normally dry land area from surface water, waves, tidal water, tidal wave, overflow of streams or other bodies of water, spray from any of the foregoing, whether wind driven or not, and water that backs up through sewers or drains. **Flood** does not mean **seepage or leakage**.
 18. "**Guaranteed Replacement Cost Coverage**" means the cost to actually repair or replace the damaged **improvements** with construction of like kind and quality at the time immediately prior to the loss without deduction for **depreciation** or physical wear and tear. This coverage shall be applicable only to a **dwelling(s)**. This extension shall not apply to alterations and/or additions in excess of \$10,000 unless reported in writing to the California Department of Veterans Affairs upon completion. If the **improvements to your dwelling** are damaged or destroyed by a **named cause of loss**, and the coverage limit shown in the annual report of the certificate limit is less than the cost of repairs, **we** will increase the coverage limit to equal the current replacement cost of the **improvements to your dwelling** subject to the following: Payment under this provision shall be limited to the amount necessarily and actually spent to repair or replace the damaged **improvements**.

19. "**Improvements**" means the finishes, alterations, or additions comprising a part of the interior of the **designated dwelling** and meet the requirements detailed under **COVERAGE: DWELLING**. As is more fully detailed in the **contract** indemnity coverage, indemnity is extended to include alterations, appliances, and fixtures that are a permanent part of the **building** contained within the condominium unit; items of real property which pertain exclusively to the financed unit as indicated above, property which is the **contract** holder's insurance responsibility as a unit owner under a corporation or **Association** of property owner's agreement; or structures owned solely **you** (other than the condominium unit) and located at the same premises.
20. "**Landslide**" means the sliding of a mass of loosened rocks or earth down a hillside or slope.
21. "**Mudslide**" means a slow, viscous mudflow down a gradual slope.
22. "**Named cause of loss**" means **earthquake, volcanic eruption, mudslide, landslide and/or flood**.
23. "**Seepage or leakage**" means continuous or repeated **seepage or leakage** of water or steam over a period of time from within a plumbing, heating or air conditioning system or from within a household appliance.
24. "**Specified**" means **structural** loss or damage to covered property arising at the same time as a proximate result of a single **named cause of loss** or all **structural** damage **improvements** to **your dwelling** with construction of like kind and quality at the time immediately prior to the loss without deduction for **depreciation** or physical wear and tear. This extension of coverage shall be applicable only to the **improvements** to **your dwelling**. This extension shall not apply to alterations and/or additions in excess of \$10,000 unless reported in writing to the California Department of Veterans Affairs upon completion. If the **improvements** to **your dwelling** are damaged or destroyed by a **named cause of loss**, and the coverage limit shown in the annual report of the certificate limit is less than the cost of repairs, **we** will increase the coverage limit to covered property proximately ensuing from a single **named cause of loss**.
25. "**Structural**" means damage that markedly diminishes the structural integrity and/or habitability of the **dwelling**. This implies damage that is markedly distinct from that which could be categorized as decorative or superficial (see "cosmetic" as a contrast).
26. "**Tectonic Processes**" means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior and not initiated, in whole or in any part, by any human activity.
27. "**Volcanic Eruption**" means a bursting forth or out of ash or lava from a volcano.

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